

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001781

SIPDIS

DEPT FOR EAP/RSP/TC

DEPT PASS AIT/W

/

FROM AIT KAOHSIUNG BRANCH OFFICE

E.O. 12958: DECL: 01/25/2015

TAGS: PREL ECON PGOV ETRD CH TW

SUBJECT: CHI MEI FOUNDER STATEMENT DICTATED BY BEIJING

REF: A. TAIPEI 1511

1B. TAIPEI 1438

Classified By: ROBERT W. FORDEN, AIT KAOHSIUNG PRINCIPAL OFFICER.
REASON: 1.4(B/D).

SUMMARY

11. (C) Chi Mei Group senior executives confirmed to AIT/K that the text of Chi Mei Founder Hsu Wen-lung's March 26 statement in support of "one China" had been dictated in full by Beijing authorities and Hsu had not requested nor negotiated any changes to the text. They said Mainland authorities had "harassed" Chi Mei's China operations for over a year with tax audits, pressure on Chi Mei customers in China to change suppliers, and other disruptive measures. However, Hsu Wen-lung's decision to issue his statement came only after Beijing signalled that China was prepared substantially to step up its campaign against Chi Mei, that no further Chi Mei investments in China would be allowed, and that there was a possibility that Chi Mei employees in China might be arrested. They noted that, once Hsu had decided to issue his statement, Beijing had signalled its approval with confirmation that Hsu had been approved for a visa to visit Hong Kong. End Summary.

BEIJING DICTATED TEXT TO HSU WEN-LUNG

12. (C) The text of Chi Mei Group Founder Hsu Wen-lung's March 26 statement (ref B) in which he expressed support for Beijing's position on "one China," was dictated in full to Hsu by Beijing authorities and had been approved by Chinese President Hu Jintao himself, Chi Mei Group Vice Presidents Jack Lin and C.H. Hsu told AIT/K. Lin and Hsu, who are both close to Hsu Wen-lung -- C.H. Hsu is Hsu Wen-lung's cousin -- said the text of the statement had been conveyed to Hsu Wen-lung via Li Kunliu, Vice Chairman of the Revolutionary Committee of the Chinese Kuomintang (Mingge), who was Chi Mei's principal intermediary with the Chinese leadership. While Hsu's close advisors had discussed how to negotiate with Beijing to revise and soften the text, Hsu had decided that he would sign the text and issue the statement without any changes, since Hsu said, "that is what Beijing wants." Chi Mei officials would not confirm speculation over whether the timing of Hsu's statement, appearing the morning of the March 26 mass rally in Taipei, was dictated by Beijing.

CHI MEI HAD HOPED BEIJING'S PRESSURE WOULD EBB

13. (C) Hsu's decision to issue the statement, which contradicted everything Hsu had stood for in his long-standing support for Taiwan independence, had been very difficult and had come only after it had become apparent that Chi Mei's future viability was threatened, the Chi Mei Vice Presidents told AIT/K. Chi Mei's operations in Mainland China, including small ABS resin, plastics and chemical production facilities, had come under increasing pressure from Mainland authorities over the past year. Arbitrary "tax audits", creation and enforcement of regulations that caused severe disruption to Chi Mei operations, and Chinese pressure on Chi Mei customers to drop Chi Mei as a supplier, had taken their toll. However, Chi Mei's Mainland China subsidiaries, which employed only 400 people, remained small compared to its worldwide operations with over 20,000 employees and USD 6 billion in net annual sales. Chi Mei had hoped the harassment of its Mainland China operations would ebb with time or could be resolved. In 2001, after Chen Shui-bian had been elected Taiwan President with outspoken support from Hsu Wen-lung, Chi Mei had been harassed with a series of tax audits by Chinese authorities, but after paying hefty "fines," the harassment had tapered off. With Chen's re-election in March 2004, again with support from Hsu, the harassment had returned, but this time Mainland authorities had refused to negotiate with Chi Mei, despite many attempts Chi Mei representatives had made throughout 2004.

BUT BEIJING THREATENED TO "UP THE ANTE"

14. (C) Signals from Beijing that China was prepared to step up even further its campaign against Chi Mei, that no future Chi Mei investments in China would be approved, not-too-subtle hints that Chi Mei employees in China might face arrest for "illegal" activities, and the passage of the Anti-Secession Law (ASL) had forced Chi Mei founder Hsu Wen-lung to rethink his position, Lin and Hsu said. At the same time, Chi Mei Group Executives had been troubled by how Chi Mei's development strategies in the ABS plastic resins and TFT-LCD industries would suffer if Chi Mei were further locked out of the China market and could not follow its competitors who were actively expanding Mainland China production facilities. Chi Mei's intermediaries with the Chinese leadership had indicated that, with the passage of the ASL, Beijing had begun to divide Taiwan companies into "enemies" and "friends." They told Chi Mei that the only way it could remove itself from the enemies list would be for Hsu Wen-lung to publicly repudiate his support for Taiwan independence and for Chen Shui-bian and to support Beijing's position that there is only one China and Taiwan is a part of it, Lin and Hsu told AIT/K.

BEIJING RESPONDS WITH VISA APPROVAL

15. (C) Beijing had responded quickly to Hsu's decision to publicly repudiate his long-standing views and support Beijing's one-China position, Lin and Hsu said. After his decision to issue the statement, but a few days before it was published, Beijing had approved for the first time in many years a visa for Hsu to visit Hong Kong. Hsu had applied for the visa to attend a concert in Hong Kong which one of his charitable foundations had sponsored. While Hsu had opted not to take the trip after all, it was seen as a signal that Hsu's decision had met Beijing's requirements.

CHI MEI MOVES TO CAPITALIZE ON ITS NEW CHINA OPPORTUNITIES

16. (C) With Hsu Wen-lung's statement issued and his retirement from active management of the Chi Mei Group complete, Chi Mei has immediately moved to capitalize on its new opening in China. Only days after Hsu's statement was published, Chi Mei applied for Taiwan government approval of a proposed USD 2 million investment to establish a new logistics firm in eastern China. Chi Mei plans to use this new entity to begin procuring parts and materials for LCD television production to feed into its production facility in the Tainan Science Park. This sourcing of inputs to Chi Mei's LCD television production from Mainland China is expected to expand significantly and help Chi Mei lower costs to make it more competitive in the extremely competitive and lucrative flat-screen television market. Separately, Chi Mei Group has also just announced plans to raise some NTD 47 billion (around USD 1.5 billion) through a bond issue for a new TFT-LCD fabrication plant in Taiwan. The announcement of the bond issue, not coincidentally, also came right after Hsu's statement was published.

SACRIFICED FOR HIS EMPLOYEES

17. (C) Chi Mei Vice Presidents Jack Lin and C.H. Hsu told AIT/K that Chi Mei's employees understand and appreciate the sacrifice Hsu Wen-lung has made for them. Hsu's decision to issue the statement had come as a surprise, but they understand the pressure he was under. No one, they said, believed Hsu had changed his views in any way. Those closest to him knew that it had taken tremendous courage for him to publicly disavow his views and that he had only acted because he saw a real threat to the financial well-being of his 20,000 employees, to the viability of the company he founded, and to the physical security of his 400 employees in China.

COMMENT -- "KILLING THE CHICKEN TO SCARE THE MONKEY"

18. (C) Hsu's apparent complete capitulation to Beijing came as a major surprise to most in Southern Taiwan. Hsu's companies had suffered for some time from Beijing's publicly stated dislike for Hsu and his support of President Chen and Taiwan independence. While Hsu had toned down his public support for independence in recent years in an attempt to lower his profile vis-a-vis Beijing, most in Southern Taiwan saw Hsu as someone who had accepted that he would pay a certain cost for staying true to his ideals. In AIT's private meetings with Hsu over the past several years, including only a few months ago, Hsu signalled no change in his views that Taiwan remained culturally and ethnically distinct from China and should remain politically independent of China as well. While he had accepted that direct trade and other links with China were economically necessary for Taiwan, he saw no contradiction between his support of an independent Taiwan and his interest in doing business in and with Mainland China. It appears, however, Hsu finally

reached a point at which he found the price of his views too high.

19. (C) It remains to be seen whether Beijing is using Hsu Wen-lung as an example to warn other Taiwan investors to stay clear of politics, i.e., as the Chinese saying goes "killing the chicken to scare the monkey." If so, the message has been received. As ref A reported, most Taiwan investors in China have already accepted that the price of doing business in China is keeping a low profile in Taiwan's domestic politics as well as on cross-Strait issues. However, most still are active in providing major funding to Taiwan political parties, both Pan Green and Pan Blue. Beijing's success in getting one of Taiwan's most intransigent pro-independence businesspersons to dance to Beijing's tune, suggests that the same tactics could be employed to push other Taiwan companies to withdraw even low-profile financial support for causes or politicians in Taiwan that Beijing opposes.

FORDEN
PAAL